

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
CLERK**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LAWRENCE COUNTY CLERK

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the Lawrence County Clerk's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$6,894 from the prior year, resulting in excess fees of \$13,464 as of December 31, 2006. Revenues increased by \$250,774 from the prior year and expenditures increased by \$243,880.

Report Comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The County Clerk's deposits were adequately insured and collateralized by bank securities or bonds as of December 31, 2006.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David L. Compton, Lawrence County Judge/Executive
The Honorable Chris Jobe, Lawrence County Clerk
Members of the Lawrence County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Lawrence County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable David L. Compton, Lawrence County Judge/Executive
The Honorable Chris Jobe, Lawrence County Clerk
Members of the Lawrence County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lawrence County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 19, 2007

LAWRENCE COUNTY
CHRIS JOBE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

State Fees For Services	\$	8,099
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Fiscal Court		27,050
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	361,727
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Usage Tax		931,911
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Tangible Personal Property Tax		673,921
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Other-

Fish and Game Licenses		8,377
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Marriage Licenses		6,900
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Occupational Licenses		422
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Beer and Liquor Licenses		9,504
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Deed Transfer Tax		29,776
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Delinquent Tax	304,525	2,327,063
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		13,026
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Real Estate Mortgages		18,997
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Chattel Mortgages and Financing Statements		45,238
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Powers of Attorney		1,080
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All Other Recordings		22,489
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Charges for Other Services	22,190	123,020
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Other:

Copy Work		14,546
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Postage		460
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U.S. Passport Application		6,950
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Candidate Filing Fees	2,350	24,306
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Interest Earned		1,286
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Total Revenues		2,510,824
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The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
CHRIS JOBE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	280,276	
Usage Tax		903,101	
Tangible Personal Property Tax		348,077	
Licenses, Taxes, and Fees-			
Fish and Game Licenses		8,107	
Marriage License		2,665	
Legal Process Tax		37,038	
Candidate Filing Fees		11,839	
Miscellaneous		9,504	\$ 1,600,607

Payments to Fiscal Court:

Tangible Personal Property Tax	115,619	
Delinquent Tax	44,898	
Deed Transfer Tax	28,287	188,804

Payments to Other Districts:

Tangible Personal Property Tax	182,991	
Delinquent Tax	146,825	329,816

Payments to Sheriff 2,762

Payments to County Attorney 45,122

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	175,530
Part-Time Salaries	3,976
Overtime	1,663

Employee Benefits-

Employer's Share Social Security	18,160
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The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
CHRIS JOBE, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2006
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Contracted Services-			
Advertising	\$	270	
Printing and Binding		2,655	
Processing Equipment		8,110	
Materials and Supplies-			
Office Supplies		4,361	
Office Expense		13,873	
Other Charges-			
Conventions and Travel		3,403	
Dues		500	
Postage		5,040	
Phone, Fax, and Internet		206	
Refunds		9,074	
Passport Applications		5,000	
Court Costs		422	
Bonds		550	
		<u>550</u>	\$ 252,793
Capital Outlay-			
Office Equipment			<u>1,214</u>
Total Expenditures			<u>\$ 2,421,118</u>
Net Revenues			89,706
Less: Statutory Maximum			<u>69,341</u>
Excess Fees			20,365
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,301</u>	<u>6,901</u>
Excess Fees Due County for 2006			13,464
Payments to Fiscal Court - February 23, 2007			<u>13,464</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Clerk's deposits may not be returned. The Clerk does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of July 3, 2006, \$6,115 of the Clerk's bank balance of \$306,115 was exposed to custodial credit risk as follows:

- Unsecured and Uninsured - \$6,115

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. Grant

The County Clerk has a local records microfilming grant from the Kentucky Department for Libraries and Archives with an ending balance of \$8,945 as of December 31, 2005. Funds totaling \$0 were expended during the year. Interest was paid in the sum of \$104, thus the unexpended grant balance was \$9,049 as of December 31, 2006.

Note 5. Lease

The office of the County Clerk was committed to a lease agreement with Software Management for the CCLIX software program. The agreement requires a monthly payment of \$500 for 12 months to be completed on October 9, 2007. The lease agreement is renewable annually.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David L. Compton, Lawrence County Judge/Executive
The Honorable Chris Jobe, Lawrence County Clerk
Members of the Lawrence County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lawrence County Clerk for the year ended December 31, 2006, and have issued our report thereon dated March 19, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lawrence County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lawrence County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lawrence County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

We consider the deficiencies described in the accompanying comment and recommendation to be significant deficiencies in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lawrence County Clerk's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Lawrence County Clerk's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Lawrence County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 19, 2007

COMMENT AND RECOMMENDATION

LAWRENCE COUNTY
CHRIS JOBE, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Clerk's internal control structure lacked an adequate segregation of duties. This deficiency occurred because the Clerk prepares the deposit, deposits all receipts into the bank, prepares all checks for disbursement, posts transactions to the receipts and disbursements ledgers, and prepares the financial statement. The Clerk also prepares the payroll. These control deficiencies could adversely affect the Clerk's ability to record, process, summarize, and report accurate financial information because of a lack of checks and balances involving these job duties. We recommend the Clerk's Office segregate these duties or implement the following procedures to strengthen controls:

- An independent person should review deposits and agree them to the daily checkout, monthly reports and the receipts ledger. These procedures should be evidenced by initialing the documents reviewed, or maintaining a log.
- An independent person should review checks and agree them to the invoices, monthly report, and disbursements ledger. These procedures should be evidenced by initialing the documents reviewed, or maintaining a log.
- The Clerk should examine payroll checks prepared by another employee and distribute the checks to employees.
- All checks written should have two signatures, with one being the Clerk.

County Clerk's Response:

I will try to work on this problem. We are short staffed and I do have a deputy assist me when they can.

PRIOR YEAR:

The County Clerk's Office Lacks Adequate Segregation Of Duties

